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## STATE AID TO RAILROADS IN MISSOURI.

### I.

#### REASONS FOR AIDING THE ROADS.

In the early history of the State of Missouri the people did not generally desire to have the state enter in its corporate capacity into the construction of public works. It was not long, however, before Missouri began to show much sympathy with the movement common to many of the states in the decades immediately preceding 1850. Pennsylvania, New York, and other of the older states engaged first in the construction of canals. But when the importance of the railroad had been recognized by the commercial world, these states began the construction of railroads, in addition to canals; and many of these enterprises had resulted disastrously long before Missouri began her experiment.

The advocates of the experiment in Missouri urged both positive and negative reasons for aiding private corporations in the construction of railroads. The state, it was argued, should assist in the construction of roads because: (1) they would develop the territory of the state, (2) they would, in the near future, become parts of transcontinental lines, and (3) the general government would thus be led to make grants of public lands to the state to be used in assisting railroad construction. The first of these reasons was common to all of the states which had made, or were making, similar experiments. The idea of directing transcontinental traffic of the future through a state was, naturally, most insisted upon in those states which were more nearly central in their location. In Missouri this aim was particularly strong, and exerted a great influence in the earlier days of the state's experiment, because roads were being projected westward both north and south of the state. Each of the central states was naturally desirous of securing for itself as much as possible of the prospective advantage. Moreover, the gold discoveries at this time (1850) also rendered this idea prominent.

It was also argued that the state should aid private enterprise because there was a lack of private capital in the state. In 1850, just prior to the granting of the first aid to the roads, the population of the state was only 700,000, and the assessed valuation of property in the state was less than \$100,000,000. In such a state it is evident that railroad corporations could not at once secure large amounts of capital. It was also plainly seen that the people of the state were not able to bear such a tax as would pay the interest on an amount of money large enough to construct the roads, and therefore taxation as a source of help could not be relied upon.

The state itself, at this time, did not possess funds sufficient for beginning the work of railroad construction. The two small funds, viz., the "Road and Canal Fund,"<sup>1</sup> and the proceeds arising from the sales of the 500,000 acre land grant,<sup>2</sup> formerly in the hands of the state, had been distributed among the counties of the state. At best, however, these funds could have yielded only a small amount of aid. The only other chance of securing funds was to bring foreign capital into the state. And since this could be done only through the use of the bonds of the state, it was decided to secure the funds needed in this way.

As to the manner in which the state should carry out the proposed scheme, the experience of other states proved to be valuable for the guidance of Missouri. New York had loaned several millions to private companies and was waiting patiently for repayment. This state has now waited half a century, and more than \$8,000,000 has never been repaid.<sup>3</sup> Pennsylvania had

<sup>1</sup>This was also known as the "three-per-cent. fund." It was constituted by Congress at the time of the formation of the state government, and consisted of three-fifths of the proceeds of all sales of public lands in the state to be used in making internal improvements. It was distributed among the counties of the state in 1845.—*Revised Statutes of Missouri* (1845), p. 956.

<sup>2</sup>This fund consisted of the proceeds of the sales of the 500,000 acre land grant made to Missouri by the general government for purposes of internal improvements in 1841. The same amount of land was granted at the same time to each of the following states: Ohio, Indiana, Illinois, Alabama, Mississippi, Louisiana, Arkansas, and Michigan.—*United States Statutes at Large*, vol. v. p. 453.

<sup>3</sup>*New York (Commonwealth Series)*, p. 547.

gone farther into the work of constructing railroads and canals than had any other state. Pennsylvania was very proud of her system of internal improvements, although she had to confess that they were "not always of the most profitable and judicious kind."<sup>1</sup> In the course of about fifteen years after the system was begun, the state was thoroughly convinced that too much had been undertaken. An attempt was made to sell the too costly enterprises; but a sale was not effected until eighteen years after the people had, by a majority of 30,000, demanded it.<sup>2</sup> And when at last the sale was made, it left the state with a debt of nearly \$38,000,000 charged to the construction of public works. The final result of this experiment could not, of course, have been known in Missouri in 1850; but the Pennsylvania enterprises had been declared unprofitable, and the state had voted to sell them, ten years before Missouri began her experiment.

The experiments in Michigan, Illinois, and Indiana had also resulted disastrously. The history of the railroad enterprises in all of these states is substantially the same. Enthusiastic support in the granting of aid in the beginning was followed by a rather tardy conviction that the wrong thing had been done, and that it was not the business of a state to engage or assist in the construction of internal improvements. Then came the full conviction that the states must release themselves from their industrial undertakings. In choosing between the two evils, of going deeper into debt, even with the railroad companies to assist in carrying the burdens, or of assuming, single-handed, as a debt, the aid already granted, the states invariably chose the latter. Furnished with such object lessons the state of Missouri would naturally be very cautious in undertaking any kind of a scheme for aiding railroad construction. And the scheme decided upon was one which would involve the state to the least possible extent in the work of securing railroads. The state would grant bonds to private companies, but would in no way enter into the management of the enterprises.

<sup>1</sup> WORTHINGTON, *Historical Sketch of the Finances of Pennsylvania*, p. 26.

<sup>2</sup> *Ibid.*

## II.

## EXECUTION OF THE STATE-AID POLICY.

The seven years<sup>1</sup> during which the grants to the roads were made are properly divided into three periods—the first two characterized by enthusiastic support, the third at first by caution, and finally by a decision to grant no further aid. The grants were made in two forms, in the bonds of the state, and in lands.<sup>2</sup>

The roads to be aided, in course of time, were six in number: the Hannibal and St. Joseph, extending from St. Joseph in Buchanan county, on the western border of the state, to Palmyra and Hannibal in Macon county, on the eastern border; the Pacific Railroad, running from St. Louis to Jefferson City, and thence to some point in Van Buren county, on the western boundary of the state; the North Missouri Railroad, extending from St. Charles on the Missouri River, near St. Louis, to the northwest, passing through Audrian county, and thence directly north to the Iowa line, for the purpose of connecting with a projected road running to that point from Des Moines; the St. Louis and Iron Mountain, extending from St. Louis to Iron Mountain; the Platte County Railroad, running from the western terminus of the Pacific Railroad northward to the Iowa line; and the Cairo and Fulton Railroad, extending from a point on the Mississippi River opposite Cairo in Illinois, to the northern line of the State of Arkansas, where the Cairo and Fulton road of that state was to cross the line. In 1852, after Congress had granted a large amount of land to Missouri to be used in assisting railroad enterprises, a part of which was to go to the Pacific Railroad Company, it was suggested by this company, in order to secure by the terms of the grant the largest possible amount of land, that it be allowed to construct a branch road to the southwest part of the state, leaving the main line not far from St. Louis. The right was granted,

<sup>1</sup> From February 22, 1851, to March 3, 1857.

<sup>2</sup> Counties and municipalities were allowed to grant aid in bonds or in money, and much aid was given in this way. But an account of this is hardly pertinent in a study of the experiment made by the state as such.

and the construction of the branch was begun a few years later. This branch was known as the Southwest Branch of the Pacific Railroad, and in course of time it became quite as important as any of the main lines.

Since the routes above indicated constituted a system of roads radiating from the city of St. Louis, it is very apparent that the chief single result to be obtained by these roads was the building up of this municipality. Three of the roads and the southwest branch of the Pacific Road, started either from the city or within a few miles of it. The Hannibal and St. Joseph would reach St. Louis by the Mississippi River. The North Missouri Road would cross the Hannibal and St. Joseph, and thereby give it additional access to the city. The Platte County Road was simply a northern extension of the Pacific at its western terminus. The Iron Mountain Road would be extended in a short time, it was hoped, to a junction with the Cairo and Fulton, and in course of time these roads would make valuable connections with railroads in the South.

In addition to the immediate gain to accrue to the state from the development of its territory and municipalities by means of the roads, the roads themselves were, in course of time, to become the property of the state. In all of the charters except one, and that the charter of the shortest and least important road, there was a provision for the future reversion of the roads to the state by purchase. In the case of three roads the time was placed at fifty years, and in the case of two at forty years.

The capital stock of the roads ranged from \$2,000,000 to \$10,000,000; but at the time of their incorporation little or none of it was subscribed.

The first recipients of aid were the Hannibal and St. Joseph and the Pacific. The legislature not only addressed memorials<sup>1</sup> to Congress asking for land grants, but began at once (February 22, 1851) the active assistance of the companies, by granting to the above roads the bonds of the state. The Hannibal and St. Joseph received \$1,500,000, and the Pacific \$2,000,000, in six-per-cent.

<sup>1</sup> *Laws of Missouri*, 1847, p. 353 and 1849, pp. 650 and 660.

twenty-year bonds of the state, which they were to sell at "not less than par." As a security the state held a first lien on the roads. Before any of the bonds could be issued by the companies, it was necessary for each to secure a *bona fide* subscription to its capital stock of \$1,500,000. The issues were to be made in blocks of \$50,000 each. Whenever a company had spent \$50,000 of its own money, it could draw \$50,000 in the bonds of the state. Thus the state was granting one dollar of aid for one dollar of private funds spent. For convenience, this may be denominated the dollar for dollar policy in blocks of \$50,000 each. Now that two roads had been aided, many others naturally came forward for like favors. There were numerous small railroad enterprises projected at this time, and had the state authorities been as anxious to assist them, or as confident of the magic powers of state activity, as the Pennsylvanians were at an earlier date, they could very easily have made grants enough in a single session to impair irreparably the credit of the state. But it was wisely decided to aid only a limited number.

On December 23, 1852, the state granted, in bonds, \$2,000,000 to the North Missouri Railroad Company; on December 25th, \$1,000,000 to the Pacific Company, \$1,000,000 to the Southwest branch, and \$750,000 to the St. Louis and Iron Mountain. These grants were upon the same terms as former grants, with the exception that in the case of the North Missouri the required subscriptions to its capital stock was only \$1,000,000, and in the case of the St. Louis and Iron Mountain \$300,000, before any bonds of the state could be drawn.

A further matter which gave the more recently incorporated roads confidence in asking aid was the fact that in June, 1852, Congress had granted land to the state, to be used in assisting the two older roads. The portion designated by the Hannibal and St. Joseph had been formally conferred upon it by the legislature of the state on September 20, 1852. The portion intended for the Pacific was transferred to it at the time of the last-mentioned grants of bonds, December 25, 1852.

The exact number of acres (not determined, however, till some

years later) falling to the companies was 127,000 to the main line of the Pacific, 1,040,000 to the Southwest branch, and 600,-699 to the Hannibal and St. Joseph.<sup>1</sup> The Cairo and Fulton road received grants from several counties along its line, amounting in all to 570,000 acres.<sup>2</sup>

The small amount of work accomplished by the various companies at the beginning of the year 1855, proved to the state that the enterprises undertaken would be much more costly and difficult of construction than had at first been estimated. The Pacific Company had completed thirty-seven miles of road west from St. Louis at an average cost per mile of about \$48,000.<sup>3</sup> The Hannibal and St. Joseph had done but little, and the remainder of the roads practically nothing. However, appeals of the companies for more aid touched the pride of the state and led to a further grant of bonds. In this, the second period of grants, the climax of the aiding policy was reached. The legislation of this year (1855) bound the state for a sum larger than all that had been formerly granted, the sum of bonds granted and guaranteed amounting to \$11,000,000,<sup>4</sup> most of which was the result of one act, December 10, 1855. The reasons for this act were, (1) that the roads might be completed as soon as possible, and (2) that the first lien of the state prevented the companies from negotiating loans on their own account. It was also provided, in the early part of the year, that all bonds could be sold at their

<sup>1</sup> *House Journal*, 1856-7, Appendix, p. 442; *Ibid.*, 1858-9, Appendix, p. 184.

<sup>2</sup> *House Journal*, 1858-9, Appendix, pp. 223-234.

<sup>3</sup> Inclusive of equipment, *House Journal*, 1855, Appendix, p. 250.

<sup>4</sup> To the St. Louis and Iron Mountain, March 3, 1855	-	\$750,000
To the Pacific, December 10, 1855	- - - -	2,000,000
To the North Missouri, December 10, 1855	- - -	2,000,000
To the Hannibal and St. Joseph, December 10, 1855	-	1,500,000
To the St. Louis and Iron Mountain, December 10, 1855	-	1,500,000
To the Southwest Branch (bonds guaranteed) December 10, 1855	- - - - -	3,000,000
To the Cairo and Fulton, December 11, 1855	- -	250,000
Total	- -	<hr/> \$11,000,000



"real market value." That the state had very great confidence in the success of the enterprises is also further shown in the Act of December 10th by its changing the proportion of aid granted to the amount of private funds expended. The former policy of granting one dollar of aid for one of private funds spent was changed to that of granting two dollars of aid for one of private funds spent.

The Interest-Relief Act of December 7, 1855, is indicative also of the confidence of the state in the success of her plan; but, on the other hand, it is also indicative of a lack of confidence on its part in the immediate success of the companies. This act establishes a fund<sup>1</sup> for the payment of interest for the companies, in case any of them should default.

In addition to the almost excessive confidence exhibited in the legislation of 1855, there was also exhibited, in more than one instance, a certain lack of business sense. When a state enters into industrial undertakings, it must exercise the same business sagacity and caution that are demanded of private individuals and corporations. An act of March 3 reduced the subscription to the capital stock of the Southwest branch necessary to secure an issue of the state bonds, from \$500,000 to \$300,000.<sup>2</sup> An act<sup>3</sup> earlier in the year dispensed with the \$50,000 block feature, rendering it easier to secure the bonds of the state. Moreover, the whole grant of bonds, in December, 1855 (10,000,000), was made in the full knowledge of a report<sup>4</sup> of a special committee appointed to investigate the condition of the railroads of the state. In this report the legislature was informed that "the Boards which have conducted the affairs of the various companies have been composed in large part, necessarily, of those who have no experience in these matters." Further evidence of

<sup>1</sup> This fund consisted of \$200,000 appropriated at once (fund to be formally constituted, July 1, 1856), and \$100,000 to be appropriated annually for thirteen years.

<sup>2</sup> *Compilation of Laws in Reference to such Railroads as have received aid from the State*, p. 71.

<sup>3</sup> *Ibid.*, p. 69.

<sup>4</sup> *Senate Journal, Adjourned Session, 1855*, Appendix, pp. 3-123.

weakness on the part of the state will be seen as we progress with our study. So far, the weakness is that of indefiniteness of policy and lack of caution. The whole trend of the legislation of 1855, viewed from a business standpoint, was to diminish the security offered by the roads to the state for the bonds loaned to them.

Notwithstanding the fact that the state was now bound to the extent of \$19,250,000,<sup>1</sup> only one-half of which had been issued to the companies, and that there were less than 300 miles of track laid,<sup>2</sup> further appeals for aid were not unheeded. The last series of grants was made March 3, 1857, aggregating \$5,700,000,<sup>3</sup> and increasing the total obligations of the state to \$24,950,000.

Although there was no change of policy in this grant, the grant itself, because of the measures which followed it, must be

	Authorized	Issued	Balance
<sup>1</sup> To the Pacific R. R. and S. W. B.	\$9,000,000	\$4,900,000	\$4,100,000
To the Hannibal and St. Joseph -	3,000,000	1,500,000	1,500,000
To the North Missouri - - -	4,000,000	2,240,000	1,760,000
To the St. Louis and Iron Mountain -	3,000,000	993,000	2,007,000
To the Cairo and Fulton - - -	250,000		250,000
	<u>\$19,250,000</u>	<u>\$9,633,000</u>	<u>\$9,617,000</u>

See *Auditor's Report*, October 1, 1856, *Senate Journal*, 1856-57, Appendix, p. 30.

	Miles of track laid	
	November 1857	January 1859
<sup>2</sup> On the Hannibal and St. Joseph - - - - -	64	170
On the North Missouri - - - - -	75	168.75
On the St. Louis and Iron Mountain - - - - -	46	86.5
On the Pacific - - - - -	132	163
On the Pacific (Southwest Branch) - - - - -	—	19
On the Cairo and Fulton - - - - -	—	7
Total - - - - -	<u>318</u>	<u>614.25</u>

<sup>3</sup> To the Pacific (Main Line) - - - - -	\$1,000,000
To the Pacific (Southwest Branch) - - - - -	1,500,000
To the North Missouri - - - - -	1,500,000
To the St. Louis and Iron Mountain - - - - -	600,000
To the Cairo and Fulton - - - - -	400,000
To the Platte County - - - - -	700,000
Total - - - - -	<u>\$5,700,000</u>

regarded as simply a phenomenon of the speculative intoxication of the times. It shows a lack of business caution, as the bonds of the state had already sold as low as 83<sup>1</sup> cents on the dollar. In the panic of 1857 the bonds sold as low as 63. The state was soon forced, not only to restrict the issues of the bonds granted, but also to take vigorous measures to protect her credit. Although the railroad enterprises rallied to a considerable extent after the panic, building more miles<sup>2</sup> of road in 1858 and 1859 than in all the previous years, they were soon to prove too heavy both for the state and the companies. Even before the war broke out, some of the roads had defaulted in the interest due to the state. Then, in a very short time, all but one defaulted.

### III.

#### THE DEFAULT OF THE ROADS.

Two of the roads aided by the state, the North Missouri and the St. Louis and Iron Mountain, defaulted in their payment of interest to the state January 1, 1859. One year from that date the Pacific and the Cairo and Fulton roads defaulted. It was believed at first that the default of these roads was only temporary.<sup>3</sup> But, from the beginning of the year 1860, the trade of the country became greatly depressed, and during the whole succeeding war the business of the roads increased but slightly. The bonds of the state were selling very low, having, as we have seen, fallen as low as 63 cents on the dollar during the panic. Under such conditions it would have been useless as well as unwise to put more bonds upon the market for the benefit of the roads. The seemingly inevitable result was that the remaining roads would default as the first had done; and there was no occasion for surprise when, on July 1, 1861, the Southwest Branch and the Platte County railroads defaulted in the payment

<sup>1</sup> *House Journal, Adjourned Session, 1857, Appendix, p. 6.*

<sup>2</sup> See note 2, p. 81.

<sup>3</sup> Governor's Message, *House Journal, 1858-59, p. 18.*

of interest<sup>1</sup> due the state. However, there was one company, the Hannibal and St. Joseph, which weathered all the storms between 1860 and 1865, and at all times met its interest charges.

It is quite true that the war and the depressed money market operated greatly to the disadvantage of the roads, but, with the exception of the panic of 1857, these causes did not operate until after most of the roads had defaulted. The real cause of their default was the lack of traffic. They could not earn enough to pay operating expenses and interest charges, to say nothing of dividends. A few details regarding the traffic at this time, as shown by the earnings of the roads, will show very clearly that this was the real cause of the default, and will indicate, to some extent, what the possibilities of the future were.

At the close of the year 1862 the business of the Pacific Railroad was reported to be "fair." During the preceding four years the total earnings of the road had been \$2,682,000,<sup>2</sup> and the net earnings \$1,188,946. Since the annual interest charges of this road were \$420,000, it is clear from the amount of earnings given that it could not meet its interest dues. The net earnings of the North Missouri for the year ending April 1, 1862, were \$178,000, and for the first seven months of 1863, \$66,000,

<sup>1</sup> The annual amount of interest due to the state at the time of the default of the roads was:

By the Pacific Railroad	-	-	-	-	-	\$420,000
By the North Missouri	-	-	-	-	-	261,000
By the St. Louis and Iron Mountain	-	-	-	-	-	210,000
By the Cairo and Fulton	-	-	-	-	-	39,000
By the Platte County	-	-	-	-	-	42,000
By the Southwest Branch, 7's	-	-	-	-	-	136,770
By the Southwest Branch, 6's	-	-	-	-	-	155,340
Total	-	-	-	-	-	<u>\$1,264,110</u>

		Gross Earnings	Total Expenses	Net Earnings
<sup>2</sup> 1859	-	\$630,839	\$371,227	\$259,612
1860	-	648,113	361,832	286,281
1861	-	683,749	406,015	277,734
1862	-	719,298	353,978	365,320

*House Journal, 1862-63, Appendix, p. 65.*

but its annual interest dues to the state alone were \$261,000. The St. Louis and Iron Mountain enjoyed an increase of traffic between 1860 and 1863, but the increase in expenses outran the increase in earnings. The Southwest Branch Company, from 1860 to 1862, was making heavy expenditures in construction, repairs, and purchase of rolling stock. The road was earning practically nothing, and could, therefore, pay nothing on its interest account.<sup>1</sup> The Platte County road, with only a few miles of track completed southward from St. Joseph, was earning nothing above expenses.<sup>2</sup> To make this a paying road it would have to be extended to Kansas City, but there was much work yet to be done before reaching that point. The Hannibal and St. Joseph, which had always met its interest charges, was able, as usual, to report a far more favorable condition of affairs. The gross earnings of the road in 1860 were more than \$1,000,000.<sup>3</sup> This one line, the Hannibal and St. Joseph, which we have seen to be the most prosperous, was the only line completed; and we may reason from this that, had the other roads been completed, their net earnings would have been more nearly equal to the demands made upon them. The Pacific Company had completed about three-fourths of its line, and was second in the scale of prosperity. The lines of the remaining roads were not half completed, and therefore the earning capacity of the roads was greatly limited.

A further reason for lack of funds on the part of the roads was the unproductivity of the land grants. At the time of its default the Pacific Railroad Company had disposed of only about half (78,000 acres) of its grant, for \$130,000.<sup>4</sup> Of the 1,040,000 acres belonging to the Southwest Branch, only 7000<sup>5</sup> had been sold, the price averaging about \$2.50 per acre. The Cairo and Fulton had hypothecated a large amount of bonds upon its

<sup>1</sup> *House Journal*, 1862-63, Appendix, p. 198.

<sup>2</sup> *Ibid.*, p. 317.

<sup>3</sup> *Ibid.*, 1862-63, Appendix, p. 313.

<sup>4</sup> *Senate Journal*, 1860-61, Appendix, p. 399.

<sup>5</sup> *Ibid.*, p. 451.

lands,<sup>1</sup> but the proceeds of the bonds were to be used in liquidating debts already contracted in the construction of less than one-half of the road. The proceeds from the land sold by the company were practically nothing. The land sales of only one road, the Hannibal and St. Joseph, had amounted to enough to be of real service in construction or in payment of interest. These sales amounted to 33,000 acres, at an average of nearly \$11 per acre.

The amount of interest due the state depended, of course, upon the amount of aid granted. The state, in making the grants, was, as has been seen, very confident of the ultimate success of the roads. The many favors which the state showed to the roads led them to depend too much upon the state. If the state had demanded a larger expenditure of private funds, the earnings of the roads, in times either of business depression or of activity, would have borne a much greater relative proportion to the interest amounts due to the state.

In Missouri, as elsewhere, inexperience in the construction of roads was one great cause of the increased cost, and ultimately, therefore, of the failure of many of the enterprises. The report of the committee of 1855 upon this point has been referred to. In 1859 the Board of Public Works stated that "much of the embarrassment which now surrounds the system is, no doubt, attributable to inexperience and erroneous ideas in regard to locations and contracts. A large amount of money has been absorbed in these errors, probably a sum sufficient to open several of the roads to the points where they are intended to terminate."<sup>2</sup> By comparing the cost per mile in Missouri with that in other states, for the same period, it will appear that inexperience, or some other cause, resulted in a greatly increased cost in Missouri. There are, however, many factors to be taken into account in such a comparison. In the first place the topography of the states compared must not be overlooked. Moreover, in the West, from 1850 to 1860, labor of a given grade cost much more than

<sup>1</sup> *Senate Journal*, p. 349.

<sup>2</sup> *House Journal*, 1858-59, Appendix, p. 148.

in the East. And, again, contracts might be in force at a given time upon a given road, so that a rise or fall in the cost of materials or labor would not, upon this road, appear in a greater or less cost per mile. The contractor might reap all the gain or bear all the loss, as the case might be.

At all events, from the tables<sup>1</sup> given, it appears that Missouri compares unfavorably with all other western states. And although the surface of the state south of the Missouri river, in which section four of the roads were situated, resembled that of the eastern states, yet this should not have increased the cost of the whole system so as to make it greater than that of roads in New York and Massachusetts. The average cost of 11,212<sup>2</sup> miles of road built in nine interior states between 1850 and 1860 was \$37,900. From this it appears that the \$50,000 average cost in Missouri was necessarily far above the average in other states. Even if the total sum (\$3,108,723) lost in discounts on the state's bonds

<sup>1</sup> The cost of the roads built in the following states between 1850 and 1860 was :

State	Miles	Cost per Mile
Maine - - - - -	472	\$35,000
Massachusetts - - - - -	1,274	47,000
New York - - - - -	2,701	48,000
Pennsylvania - - - - -	2,542	56,000
Alabama - - - - -	743	22,000
Georgia - - - - -	1,404	20,000
Ohio - - - - -	2,299	37,000
Illinois - - - - -	2,867	36,000
Iowa - - - - -	679	28,000
Missouri - - - - -	817	51,000

See *Eighth Census of the United States*, "Miscellaneous," p. 331.

Railroads built in Missouri between 1850 and 1860 and their cost per mile :

Road	Miles	Cost per Mile
Pacific Railroad - - - - -	189	\$53,700
Hannibal and St. Joseph - - - - -	206	58,129
Cairo and Fulton - - - - -	26	33,000
Platte County Road - - - - -	44	30,000
Southwest Branch - - - - -	77	56,833
North Missouri - - - - -	168	41,000
St. Louis and Iron Mountain - - - - -	86	62,000

Total 796 average \$50,000

See tables, Appendix II.

<sup>2</sup> *Eighth Census of the United States*. "Miscellaneous," p. 331.

were deducted, this would not bring the average cost of the Missouri roads under \$46,000 per mile. And although it cannot be said that during the decade between 1850 and 1860 the roads built in Missouri cost exactly \$12,000 per mile more than the roads built in the surrounding states, yet it is very evident that they cost a great deal more.

The question as to a culpable misuse of the state funds granted the roads was raised as early as 1855. And although the investigating committee of that year made a very elaborate report,<sup>1</sup> reviewing every phase of the situation of the railroads of the state, it found nothing to warrant the opinion that the affairs of the several companies "had been unfaithfully administered or their funds improperly or wastefully expended." Although there is little evidence of corruption in the management of the railroad enterprises of the state before the war, yet there is evidence of exceedingly loose management and of some extravagance. In its report<sup>2</sup> of 1861 the Board of Public Works "was forced to the conclusion" that the laws granting aid to the Platte County road had "not been complied with in drawing bonds from the state," and that "a very large portion of the bonds" granted for the use of the Cairo and Fulton road had been drawn "in palpable violation of law." Concerning the Southwest Branch, the Board was constrained to say that it was "costing a large amount of money per mile," and that the "expenditures indicate heavy profits in its construction, and make manifest the difficulty of completing the road without a change in its policy." At this time the Board's criticisms become general, and it says "that it will be difficult, if not impossible, to perfect and sustain the railroad system in this state unless a radical change is introduced into its construction and management."

However, at this time no amount of retrenchment in expenses or care in construction could have saved the roads from default in the course of the next few years. The interruption caused by

<sup>1</sup> See note 4, p. 80.

<sup>2</sup> *House Journal, 1860-61*, Appendix, p. 334 *et seq.*



the war was sufficient to further diminish the rate of increase in the net earnings, which were already too small to meet operating expenses and interest charges. But after the war had closed and business had resumed its normal course of development, the question would naturally arise whether the roads must remain permanently in default of their interest charges.

In the short space of this article it will be impossible to discuss in detail the question of the permanent default of each of the several roads. Three of the roads, the Cairo and Fulton, the Platte Country,<sup>1</sup> and the Southwest Branch, may be dismissed at once as hopelessly bankrupt. These roads had been extended respectively 30, 37, and 58 miles<sup>2</sup> since 1859; but since these distances represented almost the full extent of the lines built, it is plain to be seen that these roads in this sparsely settled state were not of sufficient length to command a large amount of traffic. And none of them would be able for many years, at the rate of progress they were then making, to secure valuable connections at both terminals.

The St. Louis and Iron Mountain road had not been extended since 1859, and was not securing the traffic which had been expected, because the mines of the Iron Mountain region were not being rapidly developed. Moreover the net earnings of this road in 1865<sup>3</sup> were almost as large as its annual interest charges due to the state; since trade would necessarily increase

<sup>1</sup> "County" changed to "Country" by special Act.—*Laws of Missouri, 1863*, p. 107.

Name	Points connected in 1866	Miles in 1866	Miles in 1859
<sup>2</sup> Cairo and Fulton - -	Bird's Point and Buffington	37.	7.
Hannibal and St. Joseph	Hannibal and St. Joseph	206.	170.
North Missouri - -	St. Louis and Macon City	165.80	168.80
Pacific - - - -	St. Louis and Kansas City	283.	163.
Southwest Branch - -	St. Louis and Rolla	77.50	19.
Platte Country - - -	St. Joseph and Weston	37.	
St. Louis and Iron Mountain	St. Louis and Pilot Knob (with Potosi Branch)	90.15	90.15
		<hr/> 897.48	<hr/> 617.95

See *Senate Journal, 1867*, Appendix, p. 882.

<sup>3</sup> *Senate Journal, 1867*, Appendix, p. 880.

as time went on, it was fair to presume that this road would soon be able to shoulder the burden which the state had for so many years been carrying for it.

The North Missouri road, although not increased in length since 1859, extended already through a very rich portion of the state; the company thought that no road in the state had "more favorable connections for increasing its business." Although this road was suffering damages from the Confederate forces, was handicapped by being "tributary" to the Hannibal and St. Joseph, a hostile competitor for the St. Louis trade,<sup>1</sup> and had not sufficient rolling stock "for the wants of the company," yet it had more than doubled its earnings between 1862 and 1864.<sup>2</sup> The net earnings for three-fourths of the year 1864<sup>3</sup> were nearly large enough to meet the annual interest due the state. And as in 1865 the road was not able to do "more than one-half" of the business offered to it, it was perfectly reasonable to suppose that, in the near future, the road would do a greatly increased business. Some figures<sup>4</sup> given at a later date (1867), however, show smaller earnings than in 1865. But as the rolling stock<sup>5</sup> had been greatly increased between 1865 and 1867, it is evident that the normal condition of affairs was better. Thus the possibilities, it seems, were that this road would soon

<sup>1</sup> *House Journal*, 1865, Appendix, pp. 617, 621, and 625; *Senate Journal*, 1867, Appendix, p. 881.

<sup>2</sup> Gross receipts in 1862	-	-	-	\$438,434
Gross receipts in 1863	-	-	-	636,245
Gross receipts in 1864	-	-	-	911,286

Expenses are not given.—*House Journal*, 1865, Appendix, pp. 627 and 652.

<sup>3</sup> Receipts from March 1 to December 1, 1864	-	\$770,856
Expenses from March 1 to December 1, 1864	-	469,390
Net earnings	-	\$238,466

See *House Journal*, 1865, Appendix, p. 653.

<sup>4</sup> See *Senate Journal*, 1867, Appendix, p. 881.

<sup>5</sup> See *House Journal*, 1865, Appendix, p. 657, and *Senate Journal*, 1867, Appendix, p. 881.

be able to assume the payment of its interest charges due to the state.

The greatest progress in extension during the war was made by the Pacific Company; it had succeeded, in spite of some losses<sup>1</sup> at the hands of Confederate forces, and of many other difficulties, in extending its line from Sedalia to Kansas City<sup>2</sup> between 1860 and 1865. The road, therefore, connected the largest commercial centre in the Mississippi Valley with the one which was soon to be the second largest in the state. And although this road would have had to compete with the Missouri River, the competition has never been of a serious kind, because of the unreliability of the river during most seasons of the year.

The earnings<sup>3</sup> of the Pacific increased steadily from the time of the completion of its first division of 37 miles west from St. Louis, with the exception of slight declines during the period of the war. During the first year after its completion to Kansas City its gross earnings increased more than three-quarters of a million, representing the phenomenal gain of 79 per cent. over the earnings of the previous year. This increase was to continue in the near future, not at a steady pace, but by gigantic strides. The total earnings of the road for the year ending December 1, 1867, were \$2,807,992, and its net earnings were \$870,789.<sup>4</sup> These net earnings would have enabled the company to discharge, in one year, the delinquent interest of two years. This payment, however, the company did not choose to make. Like many railroad companies of later times, it chose rather to expend its net earnings in construction, in rolling stock, and in enlarging in

<sup>1</sup> *Senate Journal*, 1867, Appendix, p. 878.

<sup>2</sup> The line was opened to "Independence, September 19, 1865, the road having been opened and operated from Kansas City to Independence some months previous; and on the succeeding day Mr. Garrison and the president came over the whole line of the road, leaving Kansas City at 3 A.M., and getting to St. Louis at 5 P.M. of the same day."—*Senate Journal*, 1867, Appendix, p. 878.

<sup>3</sup> See *Senate Journal*, 1867, Appendix, p. 879.

<sup>4</sup> See the "Report of Committee on Books and Accounts of Pacific Railroad" in *Appendix to the House and Senate Journals of the Adjourned Assembly*, 1868, pp. 208–251.

other ways<sup>1</sup> the capacity of the road. From October 1865 to November 1867 \$3,195,015 was spent in repairs of the road bed and in purchase and repairs of rolling stock.<sup>2</sup> Although it may have been necessary, for a few years, after reaching Kansas City to spend such vast sums of money in repairs and in perfecting the equipment, yet the biennial expenditure of a sum for these two items equal to nearly one-third of the entire first cost<sup>3</sup> of the road would not be necessary indefinitely. From the data accessible in the case of this road the only conclusion that can be drawn is that the Pacific Railroad Company was abundantly able to assume the payment of the interest which it owed to the state.

But this company, along with the other less fortunate companies, besieged the legislature for a release from the state's first lien. As usual the companies got nearly all that they asked for. The liens were released by selling the roads at a nominal price to the corporations already in control, or at auction to the highest bidders. These sales are the closing scene in a great industrial fiasco.

## IV.

## THE SALE OF THE ROADS.

After the close of the war it was the desire of all to see those burdens lessened which had been brought upon the state

<sup>1</sup> Construction of road (from October 1 1865 to November 30 1867)	-	-	-	-	-	-	-	-	\$616,690.04
Construction of Missouri River road (from October 1 1865 to November 30 1867)	-	-	-	-	-	-	-	-	9,779.06
									<hr/> \$626,469.10

See "Report of Committee on Books and Accounts of Pacific Railroad," Appendix to *House and Senate Journals*, 1868, pp. 228-229.

<sup>2</sup> Repairs of road	-	-	-	-	-	-	-	-	\$1,574,957.69
Repairs of rolling stock	-	-	-	-	-	-	-	-	770,054.75
Construction of rolling stock	.	-	-	-	-	-	-	-	850,002.69
									<hr/>
Total	-	-	-	-	-	-	-	-	\$3,195,015.13

*Ibid.*

<sup>3</sup> See notes 1 and 2 above, and the table for the Pacific Railroad in Appendix

by her railroad enterprises. Only a few small payments of interest had been made by some of the roads since January 1, 1861, and the state had paid no interest on her railroad bonds since that date.<sup>1</sup> The total railroad debt of the state January 1, 1867, was \$31,735,840,<sup>2</sup> and interest was accruing annually at the rate of \$1,307,850.<sup>3</sup> Such was the debt incurred in aiding railroads. It was rightly regarded as a heavy burden for the state, because in order to carry it, the rate of taxation had to be increased to twice what it was when the roads defaulted, although the taxable wealth of the state had increased during the time more than 60 per cent. However, as compared with the total tax rate in 1866, which was 90 cents<sup>4</sup> on \$100 valuation of property, the tax rate in 1867, of 65 cents could not be regarded as burdensome. Even if the state were able to carry the burden, it was decided to dispose of the roads for two reasons: (1) in order to complete the roads, and (2) to reduce the state debt.

The general policy pursued in disposing of the unfinished roads was to grant the portion completed as a subsidy to assist the companies in completing the remainder.

The St. Louis and Iron Mountain and the Cairo and Fulton roads, the first disposed of, were sold November 8, 1855, for \$900,000. The purchasers were to spend \$500,000 annually on the St. Louis and Iron Mountain until it should be completed.<sup>5</sup> At a later date the balance (\$664,300) due on both roads was

<sup>1</sup> *Senate Journal*, 1867, Appendix, p. 118.

<sup>2</sup> Principal, \$23,701,000, and accrued interest, \$8,034,840. The principal of the debt is less than the total grant of bonds by \$249,000, because, by defaulting, the North Missouri forfeited \$150,000, and the St. Louis and Iron Mountain \$99,000 of the bonds granted to them.

<sup>3</sup> *Senate Journal*, 1867, Appendix, p. 118.

		Tax rate in 1866	In 1867
<sup>4</sup> Revenue tax	- - - - -	\$0.40	\$0.25
Revenue poll tax	- - - - -	1.00	.50
Military tax	- - - - -	.50	state int. tax .40
Military poll tax	- - - - -	2.00	

See *Auditor's Report*, 1883-84, part ii., p. 312.

<sup>5</sup> *Laws of Missouri*, 1865-66, p. 107.

granted as a subsidy to assist in completing the St. Louis and Iron Mountain, from Pilot Knob to the state line of Arkansas.<sup>1</sup>

The method of selling these roads, and the low figure (\$900,000) accepted for them, raised a storm of indignation from the conservative (Democratic) press of the state, and was as vigorously defended by the radical (Republican) press.<sup>2</sup> The available space forbids more than a reference to the reports<sup>3</sup> of the committees of investigation and re-investigation, and to the litigation which continued for years after the sale of these roads. The final result was that the state received \$391,616<sup>4</sup> for the roads which had cost, in principal and interest, \$6,000,000, and the people of the state received the benefits arising from about 100 miles of additional road.

The Southwest Branch of the Pacific Railroad was first disposed of in 1866; but the purchaser, General John C. Fremont, defaulted within one year, and the road reverted to the state. After being operated by the state for one year it was disposed of on March 17, 1868. This branch and the 1,040,000 acres of land belonging to it were granted<sup>5</sup> in fee simple to a company made up of former railroad contractors, politicians, and, best of all, men of wealth in St. Louis, who were able to push forward the work of construction. The grantees were to extend the road to the western boundary of the state in Newton county by June 10, 1872, and pay into the treasury of the state \$300,000. Thus the grant of this road and lands, in the form made, was simply a subsidy consisting of 77 miles of road, completed at a cost of \$4,500,000, and 1,040,000 acres of land, that was selling very poorly, to assist in constructing an additional 210 miles of road.

<sup>1</sup> *Laws of Missouri, 1868*, p. 97.

<sup>2</sup> See *Missouri Republican* (Democratic), St. Louis, December, 1866, and March and April, 1867; and *The Democrat* (Republican), St. Louis, December, 1866, and February, March, June, and July, 1867.

<sup>3</sup> *House Journal, 1867*, and the Appendix to the *House and Senate Journals, 1868*, pp. 148-193.

<sup>4</sup> *Auditor's Report, 1883-84*, part ii., p. 99.

<sup>5</sup> *Laws of Missouri, 1868*, p. 118.

On the same date, March 17, 1868, the lien on the Platte Country Railroad was released by an act to aid the Missouri Valley Railroad, which was the new name of the old road. The indebtedness (\$768,000) of the road was released to the company at the rate of \$12,000 per mile of new road built. The company was to extend the road northward up the valley of the One-Hundred-and-Two River to the Iowa line, and southward to Kansas City, by December 1, 1869. By this release the community at large would acquire an additional 100 miles of road through very fertile territory.

The North Missouri road completes the list of roads disposed of on the memorable seventeenth of March. It resembled the Pacific roads, since famous in our national history, in showing an early desire to be released from the first lien held by the state. And this desire, like that of the transcontinental roads, was gratified, the state, in 1865,<sup>1</sup> releasing its first lien to the extent of \$6,000,000, and taking a second lien for that amount. Therefore the plea of this road in 1868 was for a release not from a first but from a second lien. The plea was successful. The road which had cost the state \$6,350,000 was sold to a private corporation for \$200,000, or for about three cents on the dollar. The company was required to complete the main line north to the Iowa state line within nine months, and a branch, which had been recently added, westward to the boundary of the state near Kansas City,<sup>2</sup> within eighteen months after the passage of the act. This sale was only another instance of a subsidy or gift of 168 miles of valuable road to assist in constructing in all about 200 miles of new road.

The Pacific Railroad also succeeded, in March 1868, in getting released from the lien of the state. The entire debt of the company due to the state was \$11,033,644.<sup>3</sup> Although this company

<sup>1</sup> *Laws of Missouri*, 1865, p. 91.

<sup>2</sup> *Laws of Missouri*, 1868, p. 113.

<sup>3</sup> Principal of bonds	-	-	-	-	-	-	-	\$7,000,000
Interest on bonds	-	-	-	-	-	-	-	3,780,000
Tax under ordinance of April 8, 1865	-	-	-	-	-	-	-	253,644.50
								<hr/>
								\$11,033,644.50

could not plead, as all the other defaulting companies could, that it wanted to extend its line, it had other pleas which will be referred to later and which were sufficient for their purpose. The entire debt was released for the early payment into the treasury of the state of \$5,000,000,<sup>1</sup> the state abating \$6,000,000.

It is impossible here to attempt a detailed justification or condemnation of the sales of these roads as a matter of policy in the administration of the finances of the state. To be sure, the bargains were not all bad ones. If net earnings are an index of the value of a railroad, the Platte Country, the Southwest Branch, and the Cairo and Fulton were worth practically nothing. No wiser course could have been pursued than to grant these pieces of roads as a bounty or subsidy for their completion. The St. Louis and Iron Mountain, because of the increase in its net earnings, should have brought possibly more than it did; but it is impossible to say how much more. The North Missouri Road did not bring its full value. One hundred and sixty-eight miles of road through a rich and fast developing portion of the state, just on the eve of earning enough to pay operating expenses and interest charges, were worth more than \$200,000. But the release of the lien of \$11,000,000 held by the state against the Pacific Road for \$5,000,000 is absolutely unjustifiable. It has been seen that this company was amply able to assume the payment of its debt due to the state, and all the pleas of insolvency, of the dilapidated condition of the road and rolling stock, and the like, were the cheap trumpery of a mercenary committee<sup>2</sup> dealing with a venal legislature.

In selling the roads the state had provided for their completion, which was one of the objects to be attained by their sale.

<sup>1</sup> *Laws of Missouri, 1868*, p. 114.

<sup>2</sup> This committee states, in a star chamber report to the Board of Directors regarding the passage of the bill which released the lien of the state: "The bill is now passed, approved by the executive and before this board, to become upon us a binding law if we so elect. It was obtained through our exertions and appliances at a cost to the company or stockholders of \$57,313 already paid and \$134,865 to be paid, the whole aggregating \$193,648."—*Records of the Circuit Court of the United States in St. Louis, Missouri*; suit of James M. Lamb *et. al. vs.* Pacific Railroad Company *et. al.*; "exhibit A to Bill of Complaint," filed May 4, 1868, pp. 2-4.



The second end, the great reduction of the railroad debt and of the rate of taxation necessary to carry it, had not been satisfactorily realized. The entire receipts for the roads were only \$6,131,496, leaving the state with a debt of \$25,604,344.<sup>1</sup> With so small a reduction of the debt it is evident that the rate of taxation could not be greatly reduced at an early date. Consequently we find that the rate of 25 cents on \$100 valuation of property was levied for interest purposes on account of this debt until 1875.

## V.

### SUMMARY.

The experiment of aiding railroads in Missouri, although hedged about with all the precautions that the experiments of older states had suggested, proved in the end to the minds of those who had fostered it, almost a complete failure. The enterprises, had, it is true, some redeeming features. In some of the other states, especially in Michigan and Pennsylvania, many of the enterprises undertaken were wholly or partly abandoned; in Missouri each of the lines aided became, in the end, an important part of a great railroad system.<sup>2</sup> Moreover, from the fact that the unfinished roads were extended to completion in compliance, or practically in compliance, with the terms of the selling acts of 1868, the debt of \$25,600,000 incurred on account of the roads must not be regarded as incurred for only the 874 miles in existence when the roads were sold but for the 1450 miles in existence after the companies had completed the roads.

In the study of the state-aid experiment in Missouri, as of those of many other states and of the United States, political corruption is a factor to be seriously taken into account.

<sup>1</sup> See *Auditor's Report*, 1883-4.

<sup>2</sup> The Missouri Valley (Platte Country) Road and the Hannibal and St. Joseph Road form parts of the Burlington system; the Pacific Road is now the main line of the Missouri Pacific in Missouri; the North Missouri and its western branch are parts of the Wabash system; The Southwest branch of the Pacific forms a portion of the Atchison, Topeka, and Santa Fé system; the St. Louis and Iron Mountain and the Cairo and Fulton form parts of the St. Louis, Iron Mountain and Southern.

In passing judgment upon the system as a whole, there are but two standpoints from which to view it: (1) that of the treasury, and (2) that of the general economic interests of the state. As regards the first point, it cannot be considered a success. It was undertaken, it is true, in order to develop the resources of the state. But the roads were expected to repay directly the funds borrowed from the treasury. This, it has been seen, all the roads but one failed to do. In this respect the experiment was a failure.

From the broader standpoint of the general economic interests of the state the experiment cannot be regarded as a failure. The counties and municipalities which enjoyed the benefits of the roads increased in value much faster than those not so favored, and the total wealth directly resulting from the roads was many times what they cost the state. Whether or not better results would in the end have been reached by leaving the whole matter of getting better transportation to private enterprise is a question which it is impossible to answer. Be that as it may, the experiment, such as it was, impressed the people of the state so unfavorably that in the new constitution of the state, adopted in 1875, a special clause was inserted which denies to the General Assembly the power "to authorize the giving or lending of the credit of the state in aid of or to any person, association, or corporation."

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